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Weekly Intelligence Summary No. 29

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Agreement between Bizonia and the Low Countries may be blocked by Belgian insistence upon traffic allocation. Belgium fears that without such agreement, Antwerp may be reduced to a secondary role in Rhine traffic. (Item No. 1).

Continued deterioration may bring the Government-owned Mexican railroads to the point where they can no longer satisfy even the minimum requirements of the Mexican economy. Effective action, at the earliest, will probably not be taken until the present tense political situation eases. (Item No. 2)

Argentina may tear up a large proportion of existing railway lines in a desperate attempt to reduce costs and balance the railroad budget. Although the re-equipping and modernization of her rail system is hampered by a "dollar shortage" and strong anti-US feeling in some high places, Argentina's problem will probably be solved, in time, by a general US-Argentine economic agreement. (Item No. 3)

The danger of Soviet control of Iran's airline, at one time a strong possibility, now appears to be greatly reduced. It had been feared that Iranian Airways (Iranair) had passed to indirect Soviet control through the acquisition by Iranian agents for the USSR of large blocks of stock. According to the latest information, however, these agents, while holding some stock, have not secured a controlling interest. A further favorable occurrence is the final settlement of financial differences between Iranair and Transcontinental and Western Air (TWA) which formerly operated

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the airline under contract. A third factor favoring commercial aviation in Iran is the newly organized British-Iranian Eagle Airline which now operates over certain domestic routes. Finally, there is now prospect of conclusion of the protracted US-Iran negotiations for an air agreement. Such an agreement would go far in stabilizing Iran's civil aviation policy because it would set a precedent for similar agreements with the UK, France, the Netherlands and Sweden whose airlines now fly into Iran on provisional permits. (Item No. 4)

The Polish airline (LOT) has grounded five "Languedoc" transports purchased from France in 1947 since the aircraft proved uneconomical and otherwise unsatisfactory. It is doubtful whether LOT can realize its plans for extended operations unless the USSR is willing to supply Polish aircraft requirements. (Item No. 5)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The insistence of Belgium upon allocation of traffic between Dutch and Belgian ports may block the conclusion of an agreement by these countries with Bizonia. Reduction of imports into Western Germany through Bremen and Hamburg and the consequent restoration of Rotterdam and Antwerp to their normal roles in Rhine traffic have been the joint objective of Belgium and Holland for many months. Irritation between Belgium and the Netherlands over the issue of allocations, however, now poses a serious threat to the entire Benelux program.

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The Belgian contention that Antwerp would get only a minor portion of the traffic, if no arbitrary allocations are imposed, reflects fear that Rotterdam, because of its more favorable location, would in the long run win out in any rates war or battle of subsidies for future business. The Belgian apprehension has been further accentuated by a rapid decline in Bizone military traffic through Antwerp.

Paradoxically, the bargaining positions of both the Belgian and Netherlands Governments vis-a-vis Bizonia, have been considerably weakened by the allocation of ECA dollar funds to Bizonia which can be used for defraying the cost of shipments through the low country ports. With this hard currency, the Bizonal export-import agency (JEIA) is now in a position to make contracts directly with barge operators of the low countries. It therefore seems probable that increased use of the low country ports will materialize without any agreement on the Governmental-Bizonal level, and that the Dutch port of Rotterdam will handle the bulk of this traffic as it did in the prewar period.

2. Continued deterioration may bring the Government-owned Mexican railroads to the point where they can no longer satisfy even the minimum requirements of the Mexican economy. The bleak future of the system is due to political strangulation, poor management practices and general inefficiency which have resulted in excessive numbers of employees, old and decrepit equipment, as well as substandard maintenance and repair facilities.

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Strong resentment has developed among leaders of Mexican industry because of the absence of a healthy railway system capable of supporting the economic and industrial growth of the nation. These groups have

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strongly insisted that President Aleman immediately reorganize and revitalize the railroads by cutting the administrative and labor staffs. Aleman may actually effect some streamlining at high administrative levels in order to return the physical management of the system to men of railroad experience. It is unlikely, however, that he will take any action against the strongly entrenched railroad workers "sindicato" in the form of large-scale releases of personnel from the padded railway pay rolls. Effective action, at the earliest, will probably not be taken until the present tense political situation eases.

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8. Since the Argentine Government purchased the British-owned railway system, it has been plagued with mounting costs and deterioration of equipment, resulting in financial deficits and chaotic operating conditions. So critical has the situation become that Miranda, President of Peron's National Economic Council, recently announced plans to tear up 40 percent of the existing lines in a desperate attempt to reduce costs and balance the national railway budget.

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Rehabilitation of Argentine railroads is being hindered by anti-US feeling in high circles, which has been aggravated by the dollar tightness. Although an Argentine Commission has requested bids on a considerable quantity of rolling stock from US firms, Miranda is threatening to reject dollar bids regardless of their merits, and has indicated a desire to place the orders with European firms if delivery can be guaranteed. Anti-American sentiment may even be carried to the extent of favoring Satellite suppliers, according to recent official hints that Argentina intends to orient its industrial re-equipment contracts towards the Russian sphere.

While strong forces are opposing Miranda's "dollar war" and his dismantling plans, and a general US-Argentine economic agreement is probably only a question of time, no immediate relief is in sight for the Argentine railway system.

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CIVIL AVIATION

4. The danger of Soviet control of Iran's airline, at one time a strong possibility, now appears to be greatly reduced. It had been feared that Iranian Airways (Iranair) had passed to indirect Soviet control through the acquisition by Iranian agents for the USSR of large blocks of stock (See Weekly Summary No. 18, 29 June). According to the latest information, however, these agents, while holding some stock, have not secured a controlling interest. Furthermore, the Director of Civil Aviation has now stated that he would exercise his authority to cancel Iranair's franchise if the situation warranted such extreme action. A further favorable occurrence is the final settlement of financial differences between Iranair and Transcontinental and Western Air (TWA) which formerly operated the airline under contract. (TWA has accepted a liberal settlement of its claim in order to gain complete release from all counter-claims and controversies.) The settlement should aid to some extent the recovery of Iranair as an operating air service although the airline continues to face extreme difficulties in maintenance and overhaul. A third factor favoring commercial aviation in Iran is the newly organized British-Iranian Eagle Airline which now operates over certain domestic routes. Finally, there is now prospect of conclusion of the protracted US-Iran negotiations for an air agreement. Such an agreement would go far in stabilizing Iran's civil aviation policy because it would set a precedent for similar agreements with the UK, France, the Netherlands and Sweden whose airlines now fly into Iran on provisional permits. Iran, in the past, has consistently refused to conclude an air agreement with any country but now professes satisfaction with the standard US draft which has long been a matter of controversy.

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5. The Polish national airline (LOT) has grounded five "Languedoc" transports which were purchased from France during 1947. LOT had been using the "Languedoc" on the Warsaw-Paris run, but, finding the performance of these aircraft uneconomical and otherwise unsatisfactory, has substituted DC-3's. The Director and Vice-Director of LOT, both held responsible for the purchase of the grounded transports, have been imprisoned for "economic sabotage."

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Since the domestic Polish aircraft industry is incapable of producing modern civil transports and the Western powers are increasingly reluctant to supply aircraft to Satellite countries, it is doubtful

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whether LOT can succeed in expanding its present operations unless the USSR is willing to satisfy Polish requirements. To date, however, the USSR has evidenced little interest in building up the civil air fleets of its dependent Satellites.

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